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GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF EDUCATION  
LANSING

MICHAEL P. FLANAGAN  
STATE SUPERINTENDENT

February 14, 2013

**MEMORANDUM**

TO: Local and Intermediate School District Superintendents and  
Public School Academy Directors

FROM: Carol Wolenberg, Deputy Superintendent *Carol*

SUBJECT: Early Warning Indicators of Financial Stress

The Michigan Department of Education (MDE) is charged with the responsibility of monitoring Michigan public schools to ensure compliance with various state and federal laws related to prudent financial management and reporting on the use of public funds. In addition to this specific charge, Mike Flanagan, our State Superintendent, along with State Board of Education encouragement, prompted this memorandum to alert districts and local boards of education to early warning indicators of financial stress that could prove beneficial in making difficult financial decisions.

MCL 388.1702 relates to districts that experience a deficit fund balance. The majority of district administrators and local boards of education have been able to manage their district's financial and academic resources and still maintain a positive fund balance. They do this by early detection and correction of some common early warning indicators of financial stress such as:

- Declining Enrollment
- Increasing Staff Costs
- Incurring an annual operating deficit
- Declining Fund Balance
- Increase in Short Term borrowing to meet cash flow needs
- Repeat Audit Findings (especially if material)

However, we have seen a marked increase in the number of districts that have experienced a deficit fund balance. The magnitude of some of these deficits seems almost insurmountable.

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The purpose of this correspondence is to encourage district school boards and administrators to take a serious look at where their district measures on each of these indicators and to determine if the district is experiencing a negative trend on any of them. It is a district board and administration responsibility to make the difficult decisions necessary to ensure that the district remains financially viable.

MDE is working with the Center for Educational Performance and Information (CEPI) to provide common financial health indicators to be included in the [MiSchool Data portal](#). We anticipate that they will be available in the coming months.

In addition, we understand that many districts are currently using software vendors that offer tools utilizing state datasets (data reported by districts to the state) that may help in monitoring the fiscal health of a school district. The links are below.

- [Munetrix](#)
- [Masadda](#)

We appreciate the fact that the majority of districts and local boards continue to operate within their revenues.

If you have questions regarding this correspondence, please contact Glenda Rader at [raderg@michigan.gov](mailto:raderg@michigan.gov) or by phone at (517)335-0524.

cc: Michigan Education Alliance  
Mike Flanagan, State Superintendent  
Tom Howell, Director, CEPI